

**RURAL WATER DISTRICT NO. 4,
DOUGLAS COUNTY**

FINANCIAL STATEMENTS
For the years ended September 30, 2014 and 2013

And

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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Karlin & Long, LLC
Certified Public Accountants

10115 Cherry Lane
Lenexa, Kansas 66220
(913) 829-7676

2200 Kentucky Avenue
Platte City, Missouri 64079
(816) 858-3791

901 Kentucky Street, Suite 104
Lawrence, Kansas 66044
(785) 312-9091

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY
Douglas County, Kansas

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Karlin & Long, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Rural Water District No. 4, Douglas County, Kansas
Baldwin City, Kansas 66006

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 4, Douglas County ("Municipality") as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 4, Douglas County, as of September 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 20-22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Karlin & Long, LLC". The signature is written in a cursive, flowing style.

Karlin & Long, LLC
A Professional Association
Certified Public Accountants
Lenexa, Kansas

November 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Rural Water District No. 4, Douglas County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended September 30, 2014 and comparative data for the fiscal year ended September 30, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

The District's net assets increased by \$144,714. This was principally due to increased usage and reductions in debt.

The District realized income from operations of \$ 108,460, after recognizing depreciation and amortization expense of \$ 142,783.

Total cash on hand at the end of the year was \$ 854,962 which was an increase of \$ 236,301 over the cash on hand on September 30, 2013. The total unrestricted cash on hand on September 30, 2014 was \$ 854,962.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District. The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Basic Financial Statements

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed over the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to basic financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 10-19 of this report.

72% percent of the District's net assets reflect its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net assets may be used to meet the District's ongoing obligations to its customers and creditors.

Capital Assets

The District's investment in capital assets for its business-type activities as of September 30, 2014 and 2013 was \$ 3,129,522 and \$ 3,231,312, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities, equipment, and investment in contracts with the Cities of Lawrence and Baldwin City, and Consolidated Rural Water District No. 6, Johnson County for water supply to the District.

Debt Administration

At the end of fiscal year 2014, the District had no bonded debt outstanding.

The statement of activities, expenses and changes in net assets and the comparison of budget to actual amounts for fiscal year 2014 reflect no significant changes from fiscal year 2013.

In September of 2003, the district entered in to a loan agreement for a maximum for \$250,000 (\$161,072 and \$172,431 outstanding on September 30, 2014 and 2013 respectively) with First State Bank and Trust in Lawrence, Kansas. Advances from the loan were used to finance the construction for a booster pumping and metering facility. The District will make monthly principal and interest payments of \$1,795 for 120 months

and \$1,919 for 120 months. The interest rate is 6.02% and the loan has a maturity of March 11, 2024. The loan is guaranteed by the United States Department of Agriculture.

In August of 2002, the District entered into a loan agreement with the Kansas Department of Health and Environment under the Kansas Water Supply Loan Fund up to \$1,250,000 (\$491,899 and \$533,531 outstanding at September 30, 2014 and 2013 respectively) Advance from the loan were used to finance the connection of water line with Consolidated Rural Water District # 6 of Johnson County, Kansas. The District will make semi – annual payments of \$31,490 through August of 2024. Interest rate is 4.08%

As a result of the Loan Fund the District entered into a financial integrity assurance contract with Kansas Rural Water Finance Authority (KRWFA) as a result of this contract the District has agreed to the following conditions:

Complete a quarterly management report of operating data and financial information in the form prescribed by KRWFA.

Completion of a budget 90 days prior to the end of the District's fiscal year.

Completion of an audit not less than 180 days after the end of the fiscal year.

Maintaining a debt service coverage ration 1.40.

Economic Factors and Next Year's Budget and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of rural, southeast Douglas County.

As a product of an ongoing examination of how the District does it's business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process.

As indicated in our notes on contingencies on pages 17 of the report, the District is involved in litigation with the City of Eudora over annexations made into our service territory.

Significant road improvements are anticipated over the next few years will require some minor water line relocation efforts, however most if not all of the costs associated with those improvements should be reimbursable.

Requests for Information

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the District Administrator at 1768 N 700 Road, Baldwin City, KS 66006, or phone (785) 594-3847.

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY

STATEMENTS OF NET POSITION

As of September 30, 2014 and 2013

	ASSETS	
	2014	2013
Current Assets		
Cash and cash equivalents	\$ 854,962	\$ 618,661
Account receivable	102,247	107,410
Inventory	34,547	40,493
Prepaid expenses	1,511	13,448
Total current assets	993,267	780,012
Property, plant, and equipment, net	3,129,522	3,231,312
Other Assets		
Loan costs, net of amortization	10,167	11,251
Total Assets	\$ 4,132,956	\$ 4,022,575

LIABILITIES AND NET POSITION

Current Liabilities		
Current maturity of long term debt	\$ 57,063	\$ 54,262
Accrued liabilities	21,028	17,766
Accounts payable	60,850	42,292
Total current liabilities	138,941	114,320
Long Term Debt	706,856	763,009
Current portion of long term debt	(57,063)	(54,262)
Total liabilities	788,734	823,067
Net Position		
Invested in capital, net of debt	2,422,666	2,468,303
Unrestricted	921,557	731,205
Total liabilities and net position	\$ 4,132,956	\$ 4,022,575

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Water sales	\$ 1,156,336	\$ 1,054,984
Miscellaneous	9,080	56,731
Operating transfers	<u>0</u>	<u>0</u>
Total revenues	<u>1,165,416</u>	<u>1,111,715</u>
Expenses		
Water purchased	394,365	317,834
Personnel costs	215,252	235,023
Rent and storage	20,388	20,691
Insurance	37,215	33,971
Utilities	32,848	26,757
Office supplies and postage	19,061	15,864
Vehicle expense	18,597	23,131
Professional fees	18,087	16,810
Depreciation and amortization	142,783	141,215
Repairs and maintenance	40,266	60,623
Miscellaneous	2,588	2,001
Training	1,697	882
Association Dues	1,017	940
Ongoing GPS support	3,780	8,600
Feasibility Studies	25	0
Clean drinking water fee	2,600	3,693
Eudora legal expenses	<u>106,386</u>	<u>80,391</u>
Total expenditures	<u>1,056,956</u>	<u>988,426</u>
Income from operations	108,460	123,289
Other income (expense)		
Interest income	936	569
Interest expense	(32,308)	(32,962)
Late charges	<u>7,626</u>	<u>17,468</u>
Total other income (expense)	<u>(23,746)</u>	<u>(14,925)</u>
Net income (loss)	84,714	108,364
Net Position - Beginning of Year	3,199,508	3,014,144
Benefit units and aid in construction	<u>60,000</u>	<u>77,000</u>
Net Position - End of Year	\$ <u><u>3,344,222</u></u>	\$ <u><u>3,199,508</u></u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY
Douglas County, Kansas

STATEMENTS OF CASH FLOWS
For the years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 1,203,068	\$ 1,053,834
Cash payments for goods and services	(691,400)	(515,723)
Cash payments to employees for services	<u>(215,252)</u>	<u>(235,023)</u>
Net cash provided by operating activities	296,416	303,088
Cash flows from investing activities		
Interest income	<u>936</u>	<u>569</u>
Net cash provided by investing activities	936	569
Cash flows from capital and related financing activities		
Purchase of capital assets	(40,993)	(49,730)
Proceeds from sale of benefit units	60,000	77,000
Interest paid	(31,532)	(32,963)
Principal payments on long term debt	<u>(56,153)</u>	<u>(52,633)</u>
Net cash used in capital and related financing activities	<u>(68,678)</u>	<u>(58,326)</u>
Cash flows from non-capital and financing activities		
Late charges	<u>7,626</u>	<u>17,468</u>
Net cash used in non-capital and related financing activities	<u>7,626</u>	<u>17,468</u>
Net increase in cash and cash equivalents	236,301	262,799
Cash and cash equivalents, beginning of year	<u>618,661</u>	<u>355,862</u>
Cash and cash equivalents, end of year	<u>\$ 854,962</u>	<u>\$ 618,661</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 108,460	\$ 123,289
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	143,867	141,215
Changes in assets and liabilities		
Accounts receivable	5,163	(1,150)
Inventory	5,946	11,088
Prepaid expenses	11,937	8,411
Accounts payable and Accrued expenses	<u>21,043</u>	<u>20,235</u>
Net cash provided by operating activities	<u>\$ 296,416</u>	<u>\$ 303,088</u>

The notes to the financial statements are an integral part of this statement

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY

Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water District No. 4, Douglas County (the District) is a water utility that provides service for domestic, agricultural, and other purposes to rural customers. The district was organized under Kansas law as a quasi-municipal corporation. The District's purpose is to acquire water and water rights, to build and acquire pipelines and other facilities, and to operate the same for the purpose of furnishing water to owners and occupants of land located within the District.

The following types of funds comprise the financial activities of the District for the years of 2014 and 2013:

Proprietary Funds

Enterprise Funds - To account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges – or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

GASB Statement No. 34

In June of 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement is known as the "Reporting Model" statement, affects the way the District prepares and presents financial information.

GASB Statement No.34 established new requirements and new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis in the private sector provides in their annual reports.

Statement of Net Position or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of related debt, 2) restricted; and 3) unrestricted.

Measurement Focus, Basis of Accounting, and Presentation.

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows and summary of cash balances, cash and cash equivalent are defined as demand deposits and certificates of deposit at banks with maturities of three months or less.

Accounts Receivable

The users receive a bill no later than the 6th of every month. Payments for water service are due the 20th of each month or will be subject to a 5% or \$10, whichever is greater late charge. Failure to pay for water services by the first day of the month following the month in which the water service was provided shall result in discontinuation of service.

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Inventory

Inventory consists primarily of meters, pipe, and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

Property and Equipment

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Depreciation expense totaled \$142,783 and \$141,215 for the years ended September 30, 2014 and 2013, respectively.

Loan Costs

Loan costs are costs in connection with obtaining a loan from the Kansas Public Water Supply Loan Fund. These costs include the loan origination fee and the financial integrity assurance contract fee. The costs are being amortized over the life of the loan using a straight-line method.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$6,000 and are added directly to equity rather than recognizing these sums as revenues.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The Organization's payroll tax returns for the years ending 2013, 2012, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Aid in Construction

Aid in construction represents contributions from the members for line extensions.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at September 30, 2014 and 2013.

At September 30, 2014 and 2013, the District's carrying amount of deposits was \$854,962 and \$618,661, respectively and the bank balances were \$854,962 and \$618,661, respectively of which the full amount was covered by FDIC insurance.

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

NOTE 3 – Water Contracts

The District contracted to purchase water through the year 2015 from the City of Lawrence. Under the contract, the City of Lawrence is required to sell treated water to the District not exceeding 300,000 gallons per day. The District paid \$2.41 through December 2006 and \$3.20 thereafter per 1,000 gallons. In 2014, the District paid \$3.86 per 1,000 gallons. The District purchased 27,077,600 and 35,756,900 gallons in 2014 and 2013, respectively.

In April 1999, the District entered into a contract to purchase water from the City of Baldwin City (City). Under the contract, the City agrees to sell treated water not to exceed 65,000,000 gallons per year, an average of 150,000 gallons per day, not to exceed 225,000 on peak days. The District paid the City \$2.62 per 1,000 gallons purchased through June 2006 and \$2.80 thereafter. In 2014, the District paid \$3.93 per 1,000 gallons. The District purchased 3,144,100 in 2014 and 998,600 gallons in 2013.

In addition, the District has two contracts with the state of Kansas ending in the years 2017 and 2035, respectively, for the right to use up to 173,919,000 gallons of water from the Clinton reservoir. The District paid the state of Kansas \$.10 and \$.10 per thousand gallons, respectively.

In June 2002, the District entered into a contract to purchase water from Consolidated Rural Water District No. 6 of Johnson County, Kansas. The term of the contract is for 20 years. No. 6 shall at a minimum make available adequate supplies to meet the following maximum day demands during each year of the agreement as follows:

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Water Contracts (continued)

Year	Gallons/Day	Year	Gallons/Day
1	152,640	11	358,560
2	152,640	12	388,800
3	152,640	13	417,600
4	152,640	14	447,840
5	181,440	15	476,640
6	211,680	16	506,880
7	240,480	17	535,680
8	270,720	18	565,920
9	299,520	19	597,600
10	329,760	20	629,280

In 2014 and 2013, the District purchased 61,886,500 and 51,260,300 gallons, respectively. The District paid \$3.45 per 1,000 gallons.

NOTE 4 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the county carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 5 – Compensated Absences

The District pays vacation time. For employees who have worked 6 months to four years, the district accrues 3.75 hours per pay period. For employees that have worked 4 years but less than 9 years, the District will accrues 4.75 hours per pay period. For employees that have worked more than 9 years but less than 14 years the District accrues 6.25 hours per pay period. For employees that have over 14 years the District accrues 7.75 hours per pay period. The maximum carry over of accrued vacation is 96 hours.

NOTE 6 – Retirement Plan

In January 2001, the District established an Employer's SIMPLE IRA plan. Eligible employees consist of those who have exceed \$5,000 in compensation. The District will match each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year. The District contributed \$2,764 and \$3,592 for September 30, 2014 and 2013 respectively.

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY

Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Debt Reserve Fund

In 2002, the District received a loan from the Kansas Public Water Supply Loan Fund (KPWSLF) up to \$ 1,250,000 (\$ 491,899 outstanding at September 31, 2014) bearing interest at 4.08%. Revenues of the District have been pledged as security.

KDHE has two options for debt service coverage ratios. If the District maintains a 10% reserve on account with KDHE, a Debt Service Coverage Ratio of 1.25 is required. Alternatively, if the District chooses not to maintain a reserve, a Debt Service Coverage Ratio of 1.40 is required, which is the option the district selected. The District's debt service coverage ratio for 2014 as calculated by the financial worksheet is and is shown as follows:

	With Benefit Units	Without Benefit Units
Income before Contributions	\$ 84,714	\$ 84,714
Benefit units and capital contributions	60,000	
Eudora Attorney Fees	106,386	106,386
Depreciation and amortization	142,783	142,783
Interest Expense	<u>32,308</u>	<u>32,308</u>
Available for debt service	426,191	366,191
Debt service	<u>62,980</u>	<u>62,980</u>
Debt service coverage ratio	<u>6.77</u>	<u>5.81</u>

NOTE 8 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – Contingencies

LEGAL ACTION:

The City of Eudora has brought litigation against the District to obtain declaratory relief against the District, that the District does not have rights to be the exclusive water provider within the District's protected service area.

The progress of the case to date is that the District has filed an Answer to the Complaint and parties to the counsel have conducted the initial conference of discovery with the intent to conduct settlement discussions as soon as possible.

Management of the District has responded by defending the case vigorously and by seeking an out of court settlement. The amount of possible loss is difficult to determine and any monetary claims made against the District should the City of Eudora prevail, have not been established.

NOTE 10 – Capital Assets

Capital asset activity for the year ended September 30, 2013 was as follows:

	Balance October 1 2012	Transfers in and additions	Transfers out and deletions	Balance September 30, 2013
Capital assets not being depreciated:				
Land	\$ 86,515	\$	\$	\$ 86,515
Capital Assets:				
Water System	5,145,456	2,272		5,147,728
Vehicles	57,087	27,694		84,781
Shop Equipment	8,197	2,600		10,797
Building	128,488			128,488
Office Equipment	96,523	5,565		102,088
Software	-	11,600		11,600
	<u>5,435,751</u>	<u>49,731</u>	<u>-</u>	<u>5,485,482</u>
Total Capital Assets	<u>5,522,266</u>	<u>49,731</u>	<u>-</u>	<u>5,571,997</u>
Less: Accumulated Depreciation	<u>(2,200,554)</u>	<u>(140,131)</u>		<u>(2,340,685)</u>
Total Capital Assets, Net	<u>\$ 3,321,712</u>	<u>\$ (90,400)</u>	<u>\$ -</u>	<u>\$ 3,231,312</u>

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Baldwin City, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – Capital Assets (continued)

Capital asset activity for the year ended September 30, 2014 was as follows:

	Balance October 1 2013	Transfers in and additions	Transfers out and deletions	Balance September 30, 2014
Capital assets not being depreciated:				
Land	\$ 86,515	\$	\$	\$ 86,515
Capital Assets:				
Water System	5,147,728	30,851		5,178,579
Vehicles	84,781	-		84,781
Shop Equipment	10,797	740		11,537
Building	128,488	-		128,488
Office Equipment	102,088	3,602		105,690
Software	11,600	5,800		17,400
	<u>5,485,482</u>	<u>40,993</u>	<u>-</u>	<u>5,526,475</u>
Total Capital Assets	<u>5,571,997</u>	<u>40,993</u>	<u>-</u>	<u>5,612,990</u>
Less: Accumulated Depreciation	<u>(2,340,685)</u>	<u>(142,783)</u>		<u>(2,483,468)</u>
Total Capital Assets, Net	<u>\$ 3,231,312</u>	<u>\$ (101,790)</u>	<u>\$ -</u>	<u>\$ 3,129,522</u>

NOTE 11 – Subsequent Events Review

Subsequent events for management's review have been evaluated through November 7, 2014. The date in the prior sentence is the date the financial statements were available to be issued.

NOTE 12 – Long Term Debt

The following are schedules of the long term debt and current maturities of debt of the District.

Note - 12

RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY
Statement of Changes in Long-Term Debt
For the year ended September 30, 2014

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Loans:										
Kansas State Bank	4.90%	9/9/11	\$ 61,710	9/15/26	\$ 57,047	\$	\$ 3,192	\$ (3,192)	\$ 53,855	\$ 2,724
Kansas Public Water Supply Loan	4.08%	8/1/02	1,250,000	8/1/24	533,531		41,632	(41,632)	491,899	19,516
First State Bank	6.02%	9/1/03	250,000	8/9/23	172,431		11,359	(11,359)	161,072	10,175
Total Long Term Debt					<u>\$ 763,009</u>	<u>\$ 0</u>	<u>\$ 56,183</u>	<u>\$ (56,183)</u>	<u>\$ 706,826</u>	<u>\$ 32,415</u>
	2015	2016	2017	2018	2018	2020-2024	2025-2026	Total		
Principal										
General Obligation Bonds	\$	\$	\$	\$	\$	\$	\$	\$ 0		
Special Assessment Bonds								0		
Certificates of Participation								0		
Capital Leases	57,063	59,702	62,455	65,346	68,374	382,104	11,782	706,826		
Revenue Bonds								0		
No-Fund Warrants								0		
Temporary Notes								0		
Total Principal	57,063	59,702	62,455	65,346	68,374	382,104	11,782	706,826		
Interest										
General Obligation Bonds								0		
Special Assessment Bonds								0		
Certificates of Participation								0		
Capital Leases	31,572	28,938	26,184	23,289	20,259	50,513	636	181,391		
Revenue Bonds								0		
No-Fund Warrants								0		
Temporary Notes								0		
Total Interest	31,572	28,938	26,184	23,289	20,259	50,513	636	181,391		
Total Principal and Interest	<u>\$ 88,635</u>	<u>\$ 88,640</u>	<u>\$ 88,639</u>	<u>\$ 88,635</u>	<u>\$ 88,633</u>	<u>\$ 432,617</u>	<u>\$ 12,418</u>	<u>\$ 888,217</u>		

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY

Statement of Cash Receipts and Expenditures - Actual and Budget For the year ended September 30, 2014

	Actual	Budget	Variance- Over (Under)
	<u> </u>	<u> </u>	<u> </u>
CASH RECEIPTS			
Water sales	\$ 1,156,336	\$ 990,000	\$ 166,336
Miscellaneous	9,080		9,080
Late charges	7,626	16,000	(8,374)
Interest income	936		936
Operating transfers	<u> </u>	<u> </u>	<u>0</u>
 Total revenues	 <u><u>1,173,978</u></u>	 <u><u>1,006,000</u></u>	 <u><u>167,978</u></u>
 EXPENDITURES			
Water purchased	394,365	282,115	(112,250)
Personnel costs	215,252	224,315	9,063
Rent and storage	20,388	20,000	(388)
Insurance	37,215	35,200	(2,015)
Utilities	32,848	28,000	(4,848)
Office supplies and postage	19,061	36,000	16,939
Vehicle expense	18,597	26,000	7,403
Professional fees	18,087	14,000	(4,087)
Depreciation and amortization	142,783	140,000	(2,783)
Repairs and maintenance	40,266	53,400	13,134
Miscellaneous	2,588	5,000	2,412
Training	1,697	3,000	1,303
Association Dues	1,017	0	(1,017)
Debt service	88,598	80,700	(7,898)
Ongoing GPS support	3,780	6,000	2,220
SPWUA Feasibility Study	25	0	(25)
Clean drinking water fee	2,600	2,600	(0)
Eudora legal expenses	<u>106,386</u>	<u>52,800</u>	<u>(53,586)</u>
 Total Expenditures	 <u><u>\$ 1,145,554</u></u>	 <u><u>\$ 1,009,130</u></u>	 <u><u>\$ (136,424)</u></u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of September 30, 2014

<u>Property Covered</u>	<u>Coverage</u>	<u>Expires</u>
Commercial property:	80% Coinsurance	11/10/2014
Building and personal property	1,972,513	
General Liability:		11/10/2014
Aggregate Limit -		
products/completed operations	1,000,000	
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Fire damage (per fire)	100,000	
Medical expense (per person)	5,000	
Commercial Auto:		11/10/2014
Liability insurance (per loss)	500,000	
Uninsured motorist	500,000	
Underinsured motorist	500,000	
Medical expense	5,000	
Workmen's compensation:		11/10/2014
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		11/10/2014
Per loss	125,000	
Errors and Omissions		11/10/2014
Claim	1,000,000	
Aggregate	1,000,000	

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY

BOARD MEMBERS AND OFFICERS

As of September 30, 2014

Chairman:	David Brown 615 E 1850 RD Baldwin City, KS 66006
Vice Chairman:	John Ayler 2706 N 1000 Road Eudora, KS 66025
Treasurer:	Allen Rockhold 1724 N 780 RD Baldwin City, KS 66006
Secretary:	Angela Leonard-Hinnant 2198 N 700 Road Eudora, KS 66025
Board Member:	Daryl Barnes 727 E 1650 Road Baldwin City, KS 66006
Board Member:	Kenneth Filardo 1116 E 2200 RD Eudora, KS 66025
Board Member:	Mack Grant 2021 N 1100 RD Eudora, KS 66025

The notes to the financial statements are an integral part of this statement.